

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
DECEMBER 1, 2011**

A regular meeting of the Board of Trustees was held on Thursday, December 1, 2011 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 10:25 a.m.

**Trustees Present**

Leon Jukowski, Mayor  
John Naglick, Secretary  
Matthew Nye  
Craig Storum, Chairman

**Others Present**

Matthew Henzi, Sullivan, Ward, Asher & Patton  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Administrator  
Jane Arndt, M-Administrative Assistant  
Lon Britton, PPSA Retiree

**Trustees Absent**

Brian Lee, Vice Chairman

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**AGENDA CHANGES**

Ms. Zimmermann requested that the Board approve her attendance at the One-Day MAPERS Seminar being held at The Westin Book Cadillac in Detroit, Michigan on December 2, 2011, workload permitting.

**RESOLUTION 11-067** By Nye, Supported by Naglick

Resolved, That the Board approve Ms. Zimmermann's attendance at the One-Day MAPERS Seminar being held at The Westin Book Cadillac in Detroit, Michigan on December 2, 2011.

Yeas: 4 – Nays: 0

**CONSENT AGENDA**

- A. Minutes of Regular Meeting – September 29, 2011
- B. Minutes of Special Meeting – October 13, 2011
- C. Communications:
  - 1. Correspondence from Hirayama Investments Re: Newsletter
  - 2. Correspondence from American Real Estate Re: Newsletter
  - 3. Correspondence from Garcia Hamilton Re: Newsletter October, 2011
  - 4. Correspondence from Metropolitan Real Estate Re: Newsletters
  - 5. Correspondence from Northern Trust Re: Collateral Guidelines Changes
  - 6. Correspondence from Pluscios Re: Update
  - 7. Conference Information:
    - a. MAPERS One Day Seminar – MAPERS – December 2, 2011
    - b. Pension & Benefits Seminar – NAPO – January 15-17, 2012

- D. Financial Reports:
  - 1. Financial Reports – September & October 2011
  - 2. Securities Lending- August & September, 2011
  - 3. Accounts Payable – October & November, 2011
- E. Capital Calls:
  - 1. Mesriow MFIRE \$250,000
  - 2. Metropolitan RE Fund VII \$165,000
  - 3. Metropolitan RE Fund VI \$273,000
- F. Death Audit
- G. Remove from the Rolls:
  - 1. Eleanor Mickens (deceased 09-25-11): survivor benefit of \$2,782.81/mo. to Herman Mickens
- H. Application for Service Retirement:
  - 1. Quinton Guyton – PFFU 26 years, 5 months Age 59
  - 2. Kevin Harris – PPOA 14 years, 7 months Age 50
  - 3. Frederick Joiner – PFFU 26 years, 1 month Age 50
  - 4. Mark Perkins – PFFU 25 years, 10 months Age 45
  - 5. Thomas Rayner – PFFU 23 years, 10 months Age 53
  - 6. John Widdis – PFFU 28 years, 2 months Age 47
- I. Application for Deferred Retirement
- J. Application for Disability Retirement
  - 1. Dessir D. Burroughs
- K. Final Benefit Calculations:
  - 1. Matthew Wells – PFFU #2562 \$3,865.52
- L. Application for Refund of Accumulated Contributions
  - 1. Robert Ludd – PPOA \$11,087.66
- M. Disability Re-Examination

Ms. Zimmermann indicated that there is generally a back log on finals. In order to reduce the backlog she has scheduled training on how to process finals the second week of December. This will allow everyone in the office to work on finals and help reduce the backlog.

**RESOLUTION 11-068** By Nye, Supported by Jukowski  
 Resolved, That the consent agenda be approved as amended

Yeas: 4 - Nays: 0

**Re: Gray & Company - 2011 Third Quarter Performance Report**

Mr. Kuhn explained that the Pension Fund was down 10% compared to the VEBA which was down 13%. The Pension Fund has a more conservative portfolio including real estate and more fixed income along with two index funds which replicate benchmark performance.

Munder Capital performed better than the benchmark at -16.15% versus the benchmark at -16.21%.

Loomis Sayles was down -20.91% versus the benchmark at -21.47%. Their long-term performance has been strong.

Wentworth, Hauser & Violich was down -26.13% compared to the benchmark at -19.01%. Their portfolio looks at themes related to the emerging middle class. Their allocation to energy hurt their portfolio. Over the long-term they have done well.

Thornburg performance was -20.87% versus the benchmark at -19.01%. It was a difficult quarter for international managers.

The fixed income composite was down a bit. He indicated that there were no performance numbers due to the transition to Garcia Hamilton during the period. Garcia Hamilton has a portfolio similar to Bradford Marzac's. However, Garcia Hamilton's portfolio performance is ahead of Bradford Marzac's.

High yield was down due to the change in the spread which drives down high yield performance similar to a sell off in equities.

Real estate was the best performer. Most real estate managers have not reported their third quarter market value numbers. They anticipate higher numbers than 1.82% for the real estate composite. The performance from real estate this quarter is expected to be good.

Trustee Nye asked about Metropolitan's under performance for the past three years and whether the Board should be concerned.

Mr. Kuhn stated that the NCREIF benchmark that Metropolitan is compared to is not a fair comparison.

He explained that the NCREIF Property Index benchmark being used has only core properties and is calculated based on the rents of the buildings with no leverage. This benchmark is the industry standard although most managers have leverage.

The NCREIF ODCE (Open-ended Diverse Core Equity) Fund Index is a more fair comparison. It includes 30% or less leverage.

Metropolitan is even more different. He referred to a chart of Metropolitan's annualized performance. Their IRR is a better gauge of their returns.

Trustee Naglick questioned whether all Boards review their performance monthly.

Mr. Kuhn said that they provide a full performance report quarterly for the Board. They do this because some of their clients only meet quarterly.

He indicated that he subtracted the CAPROC from the market valuations dated November 28, 2011. The market valuation will no longer reflect CAP mortgage. Only the cash in the account is being used for the market value calculation. They are being conservative in their approach.

Mr. Kuhn asked whether the Board would like to have the VEBA managers in for a round table session. Another approach would be to have the managers come into a meeting.

Trustee Nye felt that the manager review meeting was not beneficial to him. They use investment language he is not familiar with and does not understand a lot of the information they are presenting. He felt the investment consultant could do a better job of conveying the information regarding the managers to the Board.

Chairman Storum said that he prefers the manager review meeting over individual managers coming to a Board meeting. He felt that there is an advantage to meeting directly with the managers.

Trustee Nye said that the manager review meeting should take place at the MAPERS Conference.

Trustee Naglick said that it makes sense to meet the people who are managing your investment. It provides a level of comfort.

Ms. Zimmermann confirmed that the Board would like to focus on the attribution of the investment and why the manager performed or under performed.

Mr. Henzi said that the problem with managers, lawyers and actuaries is that they speak over their audience.

Retiree, Lon Britton said that coming from that industry ten to fifteen minutes is not a lot of time for a manager to convey their information. He suggested providing five questions to the managers that the Board would like answered.

Ms. Zimmermann suggested that it should be a set format.

Chairman Storum stated that the manager presentations should be in "general speak". He recommended that Mr. Kuhn and Trustee Nye work on a format for the manager review meeting to be held in the spring.

Mr. Kuhn confirmed that they would still conduct the economic round table.

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## **REPORTS**

### **Re: Chairman**

Chairman Storum noted that the General Employees' Retirement System Board voted to separate the staff from the City. He said that in order for this to occur the Retirement Ordinance will have to be changed.

Mr. Henzi indicated that he provided Mr. Cowan copies of the prior meeting minutes to confirm that the GERS Board and the PFRS Board each previously voted to separate the staff.

Mr. Naglick said that Mr. Cowan has put together a checklist to assist with the Board hiring the staff. He felt it would be beneficial to work off one checklist. The City plans to terminate the employees at the end of the year and they will become Board employees.

Mr. Henzi stated that Ms. Zimmermann came up with a very comprehensive plan.

Chairman Storum asked if Ms. Craft was still on a leave of absence. He also asked how long the leave of absence lasted.

Ms. Zimmermann said Ms. Craft returned to work after about three weeks. She said that there has been a backlog of finals since Melissa Tetmeyer left. She has scheduled training for everyone in the office so they can work on eliminating the backlog.

*Trustee Naglick left at 11:13 a.m.*

Trustee Nye said that he is concerned that all the early outs will have a bad effect on the Fund.

Ms. Zimmermann said that she reached out to the actuary. When the actuarial data is compiled the Board will see the effects.

*Trustee Naglick returned at 11:14 a.m.*

Trustee Nye said he is concerned that the Fund will be decimated due to all the early outs.

Ms. Zimmermann said that the liability will be defined.

Trustee Nye said that the number of members contributing has gone from 300 to 55. As a trustee he feels there have been too many early outs.

Chairman Storum is concerned that they have not received the 2010 actuarial valuations. Rodwan Consultants is not sticking to their promises on their 2011 projections.

Trustee Nye said he has a responsibility to the members.

Chairman Storum said that the contributions are due but we have no way to determine if we are using the correct contribution rate.

Ms. Zimmermann explained that when the Police Department transitioned to Oakland County that liability was fixed.

Trustee Nye said that the Board needs the report from the actuary to see how the employees going out have affected the System.

Trustee Naglick said that he is dealing with the City's Attorney on the issue of whether the percentages are right.

Chairman Storum said that he is concerned that the current percentages are on the low side. The corrections were made to the assumptions.

**Re: Secretary** - None

**Re: Trustees** - None

**Re: Administrator**

Certificate of Deposit

Ms. Zimmermann indicated that she went to rollover the Certificate of Deposit and discovered that the signature authority was out of date. She asked that the Board update the signature authority.

**RESOLUTION 11-069** By Jukowski, Supported by Nye  
Resolved, that the Board ratify the signature authority to include the Chairman, Secretary and the Retirement Administrator.

Yeas: 4 – Nays: 0

Cost of Living Adjustment

Ms. Zimmermann reported that the annual COLA payments totaling \$3,305,433.00 was made to the retirees on November 9, 2011.

Police Trustee Election

Ms. Zimmermann reported that she needs to schedule the election to replace Vice Chairman Lee on the Board.

Chubb Invoice

Ms. Zimmermann distributed a corrected invoice for the fiduciary liability insurance from Chubb.

Baldwin Road Property – Insurance Renewal

Ms. Zimmermann provided a summary of the insurance for the Baldwin Road property. The funds paid to CBRE did not include the building insurance. She told the Board that she authorized the insurance payment from the cash in the account. She asked that the Board ratify the insurance payment.

**RESOLUTION 11-070** By Nye, Supported by Naglick  
Resolved, That the Board ratify the \$16,608.00 insurance premium payment to LSG Insurance Partners for the Baldwin Road property.

Yeas: 4 – Nays: 0

Trustee Jukowski confirmed that the premium is high due to the building being vacant.

Social Security Administration Bulletin - Death Audit

Ms. Zimmermann distributed a copy of a bulletin from The Berwyn Group regarding the Social Security Administration's new rules regarding the release of death records from the State Vital Statistics Department.

Citicorp Settlement

Ms. Zimmermann distributed an article regarding a federal judge in New York who is receiving some notoriety through news media coverage by blocking the SEC's settlement with Citigroup. (She testified in front of this judge during a securities litigation hearing.)

Retirement Staff Separation

Ms. Zimmermann reported that the Retirement Staff will be transitioned from the City's payroll effective January 1, 2012.

She distributed healthcare proposals to the Board. She indicated that the rates were wrong when quoted so she put together a coverage list by company. Each of the quotes is less than what the System has been paying the City. Her plan is to choose the coverage that most closely mirrors what the City is providing. The coverage needs to be in place to insure that the Retirement Staff has coverage.

Trustee Nye confirmed that Ms. Zimmermann would select the coverage that is most like the City's.

Trustee Naglick opined the four employees should be in a fully insured plan.

Trustee Jukowski indicated that whichever coverage Ms. Zimmermann chooses will be cheaper than what the System is currently paying.

Chairman Storum questioned why the System cannot use the City as its agent for insurance coverage.

**RESOLUTION 11-071** By Jukowski, Supported by Naglick

Resolved, That the board authorize the Retirement Administrator to elect the healthcare coverage for the Retirement Staff with the premium to be paid at the time of separation from the City of Pontiac and cease payment to the City of Pontiac.

Yeas: 4 – Nays: 0

Consent Judgment – Payment of City Contributions

There was discussion regarding a motion for injunction filed by Elbert Hatchett on behalf of Esmo Woods and Daniel Lewis to stop the City from adding 5.4 mils to the tax rolls as a means of paying the judgement obtained by the PFRS and PF VEBA against the city for the city's failure to remit contributions.

*Meeting Break at 11:39 p.m.*

*Meeting Resumed at 11:51 a.m.*

Retirement Staff Separation (continued)

There was discussion regarding the checklist of issues that need to be resolved prior to the separation.

Chairman Storum and Trustee Nye asked if there was information regarding the percentage split and whether it had been addressed.

Mr. Henzi stated that they are still addressing the information and the percentage split.

Ms. Zimmermann indicated that a mechanism should be put in place so there is a committee with members of each System to discuss joint matters.

Trustee Naglick stated that the City is self insured and that the System periodically pays the City back for benefits. The System does not want to be self insured because it could mitigate a big risk to the Pension Systems.

Police Trustee

Retiree, Lon Britton questioned whether the election to replace Trustee Brian Lee who submitted his resignation from the Board would be open to deferred and retired police members. He also asked if attendance could be constituted via telephone or video conferencing.

Mr. Henzi said that an amendment could be made to the Retirement Ordinance and the Rules and Regulation regarding attendance.

Mr. Britton asked if a quorum can only be determined by the trustee's physical presence. Some Boards allow trustees to use teleconferencing and confirm it is the trustee by setting a password. Some Boards also have a portal.

Mr. Henzi said that changing the method of attendance would require an amendment.

Chairman Storum directed Mr. Henzi to look into what is necessary to institute the attendance changes.

Mr. Henzi said that an amendment would be required to the Rules and Regulations.

Trustee Jukowski asked whether the Retirement Ordinance or Bylaws would need to be amended.

Trustee Nye asked that Mr. Henzi begin the steps to move in this direction.

Mr. Henzi stated that the current requirement is that the trustee has to be in attendance to vote versus proxy voting.

Trustee Naglick suggested that this issue be moved to Unfinished Business and charge Ms. Zimmermann and Mr. Henzi to look into the issue.

**RESOLUTION 11-072** By Nye, Supported by Naglick

Resolved, That the Board direct the Retirement Administrator and Legal Counsel to look into the issue of allowing trustees to attend meetings via teleconferencing or video conferencing.

Yeas: 4 – Nays: 0

**Re: Legal**

James Tate – Application for Duty Disability

Mr. Henzi reported that he had to send another medical information release form to James Tate because the previous form had expired. He has submitted the forms to Genesys to obtain medical information twice and has been rejected both times. He explained that this is not an unusual occurrence. He has continued to keep Ed Wertz from MAP in the loop.

Partial Plan Termination

Mr. Henzi reported that he has been researching the partial termination and the effect on the System if the Fire Department is outsourced. Ms. Billings has been looking into this issue and whether there would be a full termination of the Fund if all the employees were lost. There would not be a full termination. It would be a partial termination and everyone would become vested because they are not able to continue to work.

A total termination of a defined benefit plan can only occur when all the assets are distributed and the Trust and System have no funds booked. The Plan will not terminate until the last payment is made according to the Trust Agreement.

If the Plan's market value falls the City could run into an issue where it is required to make a contribution to the System. The Plan will continue to exist and the City will still be obligated to make contributions. He has been trying to obtain a copy of the layoff lists for Police and potentially the Fire Department. He confirmed that with a partial termination all will vest even if they had accumulated less than the ten years normally required.

Trustee Nye asked about the time limit for layoffs.

Mr. Henzi said that he is looking three years back for the Police Department.

Ms. Zimmermann indicated that the longer this takes it is likely that more people may take their contributions out of the System. She questioned whether the members who would qualify for vesting based on a partial plan termination that took their contributions out over the last several years would be allowed to reimburse their contributions.

Mr. Henzi stated that obtaining the layoff list would make the process much easier.

Trustee Nye questioned whether Mr. Henzi had any clear cut information on when he will obtain the layoff lists. Mr. Henzi stated he will have more information for the next meeting.

Trustee Naglick indicated that is another reason why the Board needs to obtain the actuarial reports on a timelier basis.

Ms. Zimmermann stated that she will contact Sandy Rodwan regarding the Plan termination.

She also indicated that members can use their time from the City toward vesting in their new plan under the Reciprocal Act.

Trustee Nye confirmed that the Board needs to be prepared.

#### Franklin Templeton Global Bond Plus Investment

Mr. Henzi reported that the Subscription Agreement is ready for the Chairman's signature and for Mr. Kuhn's review.

*Trustee Nye left at 12:20 p.m.*

#### MAP Cost Study

Mr. Henzi reported that he has nothing new to report. He will keep the Board updated in reference to this issue.

*Trustee Nye returned at 12:21 p.m.*

Ms. Zimmermann stated that without a cost study the members will not get the new retirement factor benefit. She contacted Trustee Lee, the City and MAP and no one has indicated that they will pay for the cost study. The study will cost \$1,000.00 which is a small amount to pay to increase the benefit for the members.

#### Hiring Retirement System Office Staff (Refer to Staff)

Mr. Henzi indicated that he forwarded a copy of the minutes to Dennis Cowan where the Board voted to hire the staff.

#### CAP Mortgage LLC

Mr. Henzi reported that CBRE has determined that if the building does not sell prior to February 15, 2012 they will take it to auction and sell it for what they can.

Discussion followed by the trustees.

**RESOLUTION 11-073** By Naglick, Supported by Nye  
Resolved, That the Board approves to take the Baldwin Road property to an absolute auction with no reserve pursuant to the recommendation by CBRE.

Yeas: 4 – Nays: 0

*Mr. Kuhn & Mr. Britton left at 12:24 p.m.*

Additional Monitoring Counsel

Mr. Henzi reported that he has the contract for monitoring counsel Hagens Berman for the Chairman's signature. He asked that the Board ratify the Chairman's signature.

**RESOLUTION 11-074** By Naglick, Supported by Jukowski  
Resolved, That the Board retain Hagens Berman as monitoring counsel for the System.

Yeas: 3 – Nays: 0

**RESOLUTION 11-075** By Nye, Supported by Naglick  
Resolved, That the Board ratify the Chairman's signature on the contract for monitoring counsel Hagens Berman.

Yeas: 4 – Nays: 0

Ordinance Amendment Regarding Board Composition

Mr. Henzi reported that the Retirement Ordinance was revised changing who can serve on the Board by Emergency Manager Michael Stampfler via an Executive Order on July 29, 2011.

Trustee Lee was just elected so the new trustee will serve the remainder of his term. He is technically still a trustee until he is replaced on the Board. Based on the Rules and Regulations he has to be replaced on the Board no later than April 1, 2012.

Ms. Zimmermann explained that in the General Employees Retirement System an election has to be held x number of days after a vacancy occurs. A special election has to be held to replace the trustee if the amount of the trustee's term is more than ninety days.

Chairman Storum confirmed that the replacement would finish Trustee Lee's term. He also asked if the new trustee would be elected by the members.

Ms. Zimmermann explained that the election would be changed to a mail ballot.

There was discussion whether the Board should appoint the replacement for the remainder of the term if less than one year or if an election should be held. It was determined that the election would be conducted through a mail ballot and a candidate statement would be submitted by interested members in lieu of a nominating petition.

Chairman Storum stated that the intent of the Board is to follow the GERS trustee vacancy process.

**RESOLUTION 11-076** By Nye, Supported by Jukowski  
Resolved, That the Board approves the Administrator to immediately conduct the election to replace Trustee Lee for the remainder of his term using the GERS mail ballot process for trustee vacancies.

Yeas: 4 – Nays: 0

Sidney Miller – Power of Attorney

Mr. Henzi reported that this is for the Trustees' information.

Motley Rice Portfolio Monitoring Report – Third Quarter 2011

For the trustees' information.

Senate Bill No. 797 Proposed Changes to Public Act 314

For the trustees' information.

**RESOLUTION 11-077** By Nye, Supported by Naglick

Resolved, That the Board move to closed session to discuss pending litigation including that for the City's contributions, Northern Trust, Hawkins and securities litigation.

**Roll Call:**

Trustee Jukowski – Yea

Trustee Nye - Yea

Trustee Naglick – Yea

Chairman Storum - Yea

*The Board moved to closed session at 12:41 p.m.*

*The Board returned from closed session at 1:33 p.m.*

**RESOLUTION 11-078** By Naglick, Supported by Jukowski

Resolved, That the Board approve the closed session minutes from September 29, 2011.

Yeas: 4 – Nays: 0

Trustee Naglick questioned whether the Fund should exit the securities lending program given the information received during closed session. He also asked if there will be any additional losses that will be tacked on.

It was determined that the losses were already recognized.

**RESOLUTION 11-079** By Nye, Supported by Naglick

Resolved, That the Board approves the fund exiting the Northern Trust Securities Lending Program.

Yeas: 4 – Nays: 0

Miscellaneous Articles

- Michigan High Court Hands Governor Rick Snyder a Victory on Plan to Tax Pensions – *Detroit Free Press – November 18, 2011*

Mr. Henzi noted that the Michigan Supreme Court has upheld the plan to tax pensions based on a 4-3 vote.

**Re: Union Representatives - None**

Police & Fire Regular Meeting  
December 1, 2011

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**NEW BUSINESS**

**Re: Renewal of Credit Union CD – Ratification**

Ms. Zimmermann said that she renewed the Certificate of Deposit at the Credit Union in the amount of \$5,000.00 versus \$100,000.00. The difference will be deposited into the cash account at Northern Trust.

She asked that the Board ratify her signature on the Certificate of Deposit renewal.

**RESOLUTION 11-080** By Nye, Supported by Naglick,  
Resolved, That the Board ratify the Administrator’s signature on the Certificate of Deposit renewal.

Yeas: 4 – Nays: 0

**Re: Board Meeting Calendar 2012**

Ms. Zimmermann requested that the Board approve the 2012 Board meeting calendar.

Chairman Storum asked that the November, 2012 meeting be moved to December 6, 2012.

Ms. Zimmermann indicated that the calendar includes the conference dates.

**RESOLUTION 11-081** By Nye, Supported by Naglick  
Resolved, That the Board approved the 2012 Board Meeting Calendar as amended.

Yeas: 4 – Nays: 0

**Re: Trustee Nye Conference Attendance Request**

Trustee Nye asked if could attend the Police & Fire EMS Conference being held in Las Vegas, January 15, 2012 through January 17, 2012.

**RESOLUTION 11-082** By Nye, Supported by Jukowski  
Resolved, That the Board approve Trustee Nye’s attendance at the Police & Fire EMS Conference being held in Las Vegas, January 15, 2012 through January 17, 2012.

Yeas: 4 – Nays: 0

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**UNFINISHED BUSINESS**

**Re: Non Payment of City Contributions – Refer to Legal (Closed Session)**

**Re: Ordinance Amendment – Professional & Clerical**

Police & Fire Regular Meeting  
December 1, 2011

**Re: Actuarial Cost Study MAP** – Refer to Legal

**Re: Rules & Regulations Revision** - Table

**Re: James Tate – Application for Duty Disability** – Refer to Legal (Closed Session)

**Re: CBRE Update** – Refer to Legal

**Re: Baldwin Road Insurance** – Refer to Legal

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### **SCHEDULING OF NEXT MEETING**

Regular Meeting – Thursday, January 26, 2012 – City Council Conference Room, Second Level,  
City Hall @ 9:00 am

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### **ADJOURNMENT**

**RESOLUTION 11-083** By Jukowski, Supported by Nye  
Resolved, That the meeting be adjourned at 11:53 a.m.

Yeas: 4 – Nays: 0

I certify that the foregoing are the true and correct  
minutes of the meeting of the Police and Fire  
Retirement System held on December 1, 2011.

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John Naglick, Secretary  
*As recorded by Jane Arndt*